

ORANGE COUNTY ASSESSMENT PRACTICES SURVEY

JULY 2001

CALIFORNIA STATE BOARD OF EQUALIZATION

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July 23, 2001

NO. 2001/044

TO COUNTY ASSESSORS:

ORANGE COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Orange County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Webster J. Guillory, Orange County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the county assessor's response, constitutes the final survey report which is distributed to the Governor, Attorney General, and State Legislature; and to the county's Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey of the Orange County Assessor's Office was conducted by the County Property Tax Division during October 1999 through February 2000. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Guillory and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

We invite your comments and exchanges of information, for we feel that these surveys can only be helpful in a mutually cooperative atmosphere.

Sincerely,

Richard C. Johnson
Deputy Director
Property Taxes Department

RCJ:jm
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the enormous impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that half or more of all property tax revenues are used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Orange County Assessor's Office.

Readers of previous assessment practices survey reports will note several distinct changes in the format of the report. Among other things, the previous reports commonly contained multi-part recommendations and formal suggestions. Each recommended change is now listed as a separate recommendation. Items that would have been formal suggestions under the previous format are now either recommendations or are stated informally within the text of the report. Both of these changes increased the number of recommendations in the survey reports.

The assessor is required to file with the board of supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly, the Orange County Grand Jury, and the Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Webster J. Guillory, Orange County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

SCOPE OF SURVEY

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by these statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the performance of other duties enjoined upon the assessor, and the volume of assessing work as measured by property type. As directed by Government Code section 15644, this survey report includes recommendations for improvement to the practices and procedures found by the BOE's survey team.

In addition, Revenue and Taxation Code section 75.60¹ requires the BOE to certify that the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in the Appendix B.

Our survey of the Orange County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Orange County with information relevant to the property tax assessment program.

The survey also included an assessment sample of the 1999 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments in the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is zero and the maximum acceptable amount is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the subject county is eligible to continue recovering the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix C.

An assessment practices survey is not an audit of the assessor's entire operation. We did not examine internal fiscal controls or the internal management of the assessor's office outside those areas related to assessment.

¹ All statutory references are to the Revenue and Taxation Code unless otherwise indicated.

EXECUTIVE SUMMARY

- In the survey published in April of 1997, the BOE made 16 recommendations. Of these recommendations, the Orange County Assessor fully implemented eight recommendations, partially implemented three recommendations, and did not implement five recommendations.
- The Orange County Assessor's Office was budgeted \$17.42 million for FY 99-00, with 326 positions authorized. A total of 915,000 appraisal units were on the local assessment roll as of January 1, 1999, with a total assessed value of over \$204 billion.
- The assessor's *Assessment Tax System* (ATS) is a highly integrated, internally developed computer system operating on a mainframe. The *Document Storage and Retrieval* (DSAR) system substantially reduces the volume of paper documents necessary for administrative purposes.
- The assessor and staff are substantially current in the training required to maintain certification. Four of 167 professional staff members were in a training deficit situation.
- Standards and quality control within the Orange County Assessor's Office are the responsibility of the Quality Assurance Project, whose various processes and procedures appear to be quite effective in ensuring accurate assessments.
- The low-value resolution adopted by the Orange County Board of Supervisors, designed to eliminate uneconomic assessments, is currently set at \$1,350. This amount was recently reviewed by the Orange County agencies responsible for property tax administration, and it was their conclusion that no change in the resolution is warranted.
- The substantial backlog of assessment appeals that was present in Orange County during the mid 1990s has been alleviated due to improved communications between the assessor and the clerk of the board of supervisors, improved information technology, and a recovery in the real estate market.
- Disaster relief is granted when warranted and is efficiently administered.
- Supplemental assessments continue to be forwarded to the auditor-controller on a biannual basis contrary to our prior recommendation, and we repeat the recommendation in this report. In addition, we found that the assessor's staff was in effect canceling small supplemental assessments without the authority to do so.
- The change in ownership program is effectively administered.
- Generally, new construction events are properly reflected on appraisal records.

- Major properties that possess a combination of real property, fixtures, and business property are appraised as “composite units.”
- A total of 39 cable television appraisals were performed consistent with a settlement agreement between the cable television industry and the assessor.
- Most possessory interests are discovered and properly assessed by the assessor.
- Section 11 property (taxable government-owned property) is properly discovered and assessed.
- Petroleum-producing properties are properly assessed. Many petroleum properties are in transition to residential and commercial uses as land values increase.
- Rural properties and California Land Conservation Act (CLCA) properties make up only a small fraction of the Orange County assessment roll and are properly assessed.
- There are a significant number of timeshare properties in Orange County. We found no indication that those in a decline in value status were being reviewed annually, and we found inconsistencies in assessments between other timeshare increments.
- One electrical generation facility transferred to local assessment jurisdiction in Orange County when the BOE adopted Property Tax Rule 905. As of November 1999, the assessor was still in the process of developing a value for the facility.
- Historical properties are properly identified and assessed.
- We recommend that the assessor allow the welfare exemption for the total area of church parsonages.
- The Business Property Project is responsible for approximately 153,000 appraisal units as of the January 1, 1999 lien date, including 35,300 boats and 875 aircraft. No major problems were noted in business property statement processing.
- The audit program is still in arrears for mandatory audits. We recommend the assessor bring the mandatory audit program to current status.
- The assessor continues to have an inappropriate minimum assessment policy for escape assessments.
- We recommend annually valuing pleasure boats at market value
- We recommend that the assessor use the BOE's equipment index factors and computer valuation factors as intended.
- We repeat a recommendation to ensure that leased equipment retained by the lessee upon lease termination continues to be assessed.

- All other aspects of the business property program appear to be functioning efficiently and effectively.
- Our sample of the 1999 assessment roll indicated an average assessment ratio of 98.66 percent, and the sum of absolute differences was 1.92 percent. Accordingly, pursuant to section 75.60, Orange County continues to be eligible for recovery of costs associated with administering supplemental assessments.

This is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text:

RECOMMENDATION 1:	Submit supplemental assessments to the county auditor on a monthly basis.	15
RECOMMENDATION 2:	Process all supplemental assessments unless exempted by the board of supervisors.	16
RECOMMENDATION 3:	Audit the accounts of properties that have major new construction completed.	24
RECOMMENDATION 4:	Enroll dedicated parking spaces in government-owned parking facilities.	27
RECOMMENDATION 5:	Ensure that timeshares are assessed in a consistent manner.	30
RECOMMENDATION 6:	Allow the welfare exemption for the total area of church parsonages.	33
RECOMMENDATION 7:	Bring the section 469 mandatory audit program to current status.	35
RECOMMENDATION 8:	Discontinue the arbitrary minimum assessment policy applicable to audit findings.....	35
RECOMMENDATION 9:	Annually value pleasure boats at market value.	36
RECOMMENDATION 10:	Use the BOE's equipment index factors from AH 581 as intended.	37
RECOMMENDATION 11:	Assess computers using the BOE's recommended computer valuation factors as intended.	38
RECOMMENDATION 12:	Ensure that leased equipment retained by the lessee upon lease termination continues to be assessed.....	39

RESULTS OF THE 1997 SURVEY

Add Cash Value of Outstanding Improvement Bonds To the Nominal Sales Price

We found that the assessor was not adding the cash value of outstanding improvement bonds to the nominal sales price of parcels so encumbered. Following the implementation of this recommendation by the Orange County Assessor, the California Legislature amended section 110(b). This section now states that it is presumed that a property's nominal sales price includes the value of any improvement bonds outstanding. An assessor may overcome this presumption by performing a study to determine if comparable properties not encumbered by improvement bonds are selling at higher prices. The study conducted by the Orange County Assessor's Office did not indicate a value difference.

Request Building Permits from all Granting Agencies

The assessor was not receiving building permits granted by the Orange County Environmental Protection Agency for the drilling of wells. We now find that this situation has been remedied.

Submit Supplemental Assessments to the County Auditor on a Monthly Basis

We recommended that the assessor submit supplemental assessments to the county auditor on a monthly basis, rather than twice a year. The assessor continues to be of the opinion that submitting supplemental assessments more frequently would increase the rate of error (and cost) without any appreciable benefit. We repeat the recommendation in this report.

Revise Low-Value Exemption Resolution to Remove Non-Economic Assessments

The assessor, in conjunction with the treasurer-tax collector and the auditor-controller, conducted a study to determine the marginal incremental cost of producing and collecting a tax bill. The amount was determined to be \$15.50. This means that any tax assessment greater than \$1,350 will generate a positive income. The assessor is of the opinion that the current low-value exemption resolution is set at the appropriate amount.

Remove the Exempt Status from Parcels where the Assessee is Listed as "Unknown Owner"

The assessor has fully implemented this recommendation.

Change the Policy for Determining and Applying Terms of Possession when Appraising Taxable Possessory Interests

The assessor has fully implemented this recommendation.

Resume the Assessment of Individual Aircraft Tie-Downs at John Wayne Airport

The assessor has fully implemented this recommendation.

Assess all Taxable Possessory Interests at the County Fairgrounds, Anaheim Convention Center, and Anaheim Stadium.

The assessor has fully implemented this recommendation.

Bring the Mandatory Audit Program up to Current Status

The assessor has made significant progress in this area. However a substantial number of audits are still being carried over to future fiscal years, so we repeat the recommendation in this report.

Prepare a Comprehensive Status Summary Report For the Tracking of All Mandatory Audits

The computer system has been programmed to generate a report that provides a record of audit completion.

Discontinue the Arbitrary Minimum Assessment Policy Applicable to Audit Findings and Leased Equipment

Leased equipment is now assessed unless the value is \$1,350 or less, in which case no assessment is made pursuant to the county's low-value ordinance. For audit findings, however, the assessor continues a \$5,000 minimum enrollment policy. We repeat the part of this recommendation pertaining to audit findings.

Initiate a Nonmandatory Audit Program

The assessor started a nonmandatory audit program in the fall of 1999.

Ensure that Leased Equipment Retained by a Lessee when a Lease Terminates Continues to be Assessed

The assessor believes that substantial compliance is already obtained and the dedication of further resources to this area would not be cost effective at this time.

Use the BOE's Equipment Index Factors as Recommended

The assessor believes the use of an arithmetic mean of the BOE factors results in aggregate values not significantly different from those resulting from the use of industry specific Replacement Cost New (RCN) factors. The assessor believes that the savings of processing costs using arithmetic means justifies their use. We repeat the recommendation in this report.

Annually Appraise Pleasure Boats at Fair Market Value

The assessor has not implemented this recommendation. We repeat the recommendation in this report.

Refer all Structure, Land Development, and Land Improvement Costs Reported on the Business Property Statement to the Real Property Division for Evaluation and Appropriate Assessment.

The assessor has enhanced the computer system to provide an opportunity for information exchange between the Business Property Project and the Real Property Project in compliance with our recommendation.

OVERVIEW OF ORANGE COUNTY

Orange County is a General Law county created by the Legislature in 1889 from the southern territory of Los Angeles County. The county has a land area of 798 square miles and is represented on the California State Board of Equalization by the member from the Third District.

The current population of Orange County is 2,775,619², the third most populous county in the state after Los Angeles and San Diego Counties. Orange County has 33 incorporated cities as of January 1, 2000, containing over 93 percent of the population. The county seat and largest city is Santa Ana. Orange County has a diverse economy with service industries, manufacturing, and government the leading employers. The gross county economic product is over \$100 billion annually.

The average price of a single-family residence in Orange County was approximately \$272,000 in the fourth quarter of 1998. Home prices, which declined with the recession of the early 1990s, have generally recovered to 1990 levels.

² California Department of Finance estimate, January 1, 1999

ADMINISTRATION

This portion of the survey report focuses on the organization, policies, and procedures of an assessor's office that affect both the real and business property assessment programs.

The “*project*” organization scheme favored by the current assessor and his immediate predecessor provides significant latitude to each project manager and creates self-contained responsibility centers. The six projects within the assessor’s office are real property, business property, computer systems, management services, quality assurance, and roll support services.

Budget and Workload

The following table displays pertinent information for the 1997 lien date. This information was abstracted from the BOE publication *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors’ Offices 1996-97*, May 1998. The aggregate value of the Orange County local assessment roll is the second largest in the state, surpassed only by Los Angeles County. The Orange County Assessor has used innovative computer technology to achieve high levels of productivity.

<u>Property Type</u>	<u>Number of Assessments in County</u>	<u>Enrolled Values</u>
Residential	719,518	
Miscellaneous (includes Manufactured homes)	4,290	
Rural	3,386	
Commercial/Industrial	<u>38,986</u>	
Total Secured Roll	766,180	\$ 169,865,047,000
Total Unsecured Roll (personal property except manufactured homes)	<u>149,541</u>	<u>12,556,061,000</u>
Total Roll	915,721	<u>\$182,421,108,000</u>

For the 1999–2000 fiscal year, the assessor’s office was authorized 326 positions and a budget of \$17.42 million (this is net of \$2.45 million in revenue from selling information products to the public). The staff is comprised of the assessor, 6 project managers, 2 managing appraisers, 97 appraisers, 2 managing auditor-appraisers, 56 auditor-appraisers, 133 support staff, 15 cadastral drafting staff, and 15 computer system and quality assurance staff.

Based on the current rate of real estate transactions, the assessor estimates that 192,000 recorded documents will impact the title and ownership database in the 1999-2000 fiscal year, up from 157,000 in fiscal year 1998-99. The following table illustrates trends over the past four years in budget authority and major workload events. Of the \$17.42 million in budget authority, over 93 percent is associated with personnel costs.

Roll Year	Budget	Positions	Transfers	New Construction	# Appeals
1996	\$ 14,822,205	283	57,073	26,789	28,100
1997	\$ 15,942,070	299	61,200	28,700	17,803
1998	\$ 16,719,644	316	77,150	35,750	5,373
1999	\$ 17,420,450	326	82,000	38,000	4,157

Computer Systems

The assessor uses information technology to expedite many functions. Originally implemented in 1988, the *Assessment Tax System* (ATS) is the core of the data processing system and has been integrated to cover other property tax related departments: the auditor-controller, treasurer-tax collector, and the assessment appeals boards. The assessment portion of the ATS is accessed via a local area network in the assessor's office. The specifications of the ATS are as follows:

- ◆ 1500 programs
- ◆ 480 on-line screens
- ◆ 600 reports
- ◆ 96 database tables
- ◆ 92,000,000 records
- ◆ 100,000 on-line transactions per day
- ◆ 500 data views, 3,000 data elements, and 1,400,000 lines of code

The *Document Storage and Retrieval System* (DSAR) is an optical disk-based electronic storage system that consists of software, servers, an optical disk storage and retrieval library, optical disks, scanners, and printers. As documents are received and processed by the assessor's staff, an image of each page is unalterably "burned" into an optical disk by a laser scanner. The original paper document is then boxed and archived off-site. A primary index number is assigned to each record to allow retrieval of the image via *FileNet* software. The system currently contains nine years of history with more than 5.5 million documents (equivalent to more than 16 million pages) electronically imaged and archived. The following documents have been imaged:

- Deeds, *Preliminary Change in Ownership Statements/Change in Ownership Statements*
- *Business Property Statements, Vessel and Aircraft Property Statements*, related correspondence, assessment roll corrections, and escape letters
- Business and real property appeals, including petitions, worksheets, statements of agency, and assessment appeals board minutes
- Homeowners' and veterans' exemption claim forms
- *Real Property New Construction Cost Inquiry Letters*

Other network software tools used by the assessor are the *COMPSLink* and *Experian* property databases, *Aircraft Bluebook Price Digest* and maritime vessel database, and the *California State Board of Equalization Property Taxes Law Guide*.

All professional and support staff have a computer terminal or networked PC on their desktop. Auditors make use of laptop computers to expedite audit fieldwork. The assessor is exemplary in his use of information technology to maximize efficient use of human resources and enhance overall productivity.

Training

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. Section 671 further provides that all appraisers who hold such a certificate must complete at least 24 hours of annual training. This requirement is reduced to 12 hours of annual training if an appraiser holds an advanced certificate.

Appraisal staff training hours are tracked using a computerized database. The training coordinator generates a quarterly report to senior management. This report addresses training issues such as future classes that are scheduled and the training status of any certified employee with deficit hours.

Of the 167 appraisers and auditor-appraisers on staff, we found four appraisers with a training deficit of 20 hours or more. We suggest that efforts be made to bring all certified appraisers to current training status.

Standards and Quality Control

Standards and quality control are the responsibility of the Quality Assurance Project (QAP), an internal division consisting of a manager and seven staff members. The QAP provides guidance and direction to assessor's staff to ensure quality assessment roll products. The QAP defines high quality assessment roll products as those that comply with the law and that are created using consistent procedures and processes that focus on the accuracy of each work unit.

The QAP staff, whose manager reports directly to the assessor, reviews processes and procedures in all areas of the assessor's office and has the authority to make modifications when necessary. The QAP staff controls mandated reports to the BOE, monitors appraiser training hours, and reviews all forms and documents. The project acts as a control point for roll adjustments such as calamities, assessment roll corrections, and appeals. The QAP staff conducts reviews of work in progress on an ongoing basis and reviews ATS program modifications using a test portion of the database. Changes to the ATS are not implemented in a production mode until the QAP staff run trials using the test database and all problems are resolved in coordination with the Computer Systems Project.

Overall, the QAP operates effectively for ensuring accurate assessments. The system provides the ability for management to monitor effectiveness in a variety of ways and identify inconsistencies that may require adjustments.

Low-Value Exemption Resolution

Section 155.20 authorizes a county board of supervisors to exempt from property taxation properties whose values are so low that the total taxes due would amount to less than the cost of assessing and collecting the tax.

The Orange County Board of Supervisors adopted a low-value exemption resolution in 1982, effective for the 1984-85 fiscal year. In 1982, the responsible county officers (assessor, auditor-controller, and treasurer-tax collector) estimated that the *additional incremental cost* of assessing and collecting taxes on an appraisal unit was approximately \$15.50 per unit. The county officers further estimated that on an average basis, the revenue that would be derived from a unit of property having a full cash value of \$1,350 or less would amount to less than \$15.50 in tax revenue. Consequently, the board of supervisors adopted a resolution to exempt from property taxation all real and personal property appraisal units with a full cash value of \$1,350 or less.

Senate Bill 722 (Chapter 497, Statutes of 1995), effective January 1, 1996, increased the maximum value of an appraisal unit that a county board of supervisors could exempt to \$5,000 for both real and personal property. The assessor, in conjunction with the auditor-controller and the treasurer-tax collector, conducted a follow-up study to determine whether the low-value exemption resolution should be revised to reflect the higher amount adopted by the Legislature. The conclusion of this study was that the current threshold of \$1,350 should remain unchanged.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.1 are the statutory provisions to guide county boards of supervisors in the appeals function. Government Code section 15606(c) directs the BOE to prescribe rules and regulations to govern local boards of equalization, and the BOE has adopted Property Tax Rules 301 through 326 regarding assessment appeals.

The Real Property Project's appeals unit consists of one senior auditor-appraiser, plus 3 auditor-appraisers, and 12 real property appraisers. The Business Property Project's appeals unit consists of one supervising appraiser and one senior appraiser. The appeals units' staff prepares and presents all appeal cases.

During the early 1990s, Orange County experienced a substantial downturn in its real estate market. This was caused by a general economic recession coupled with downsizing in the aerospace and defense industries in southern California. Because of this real estate market downturn, many property owners felt that their property tax assessments overstated the value of their property. This resulted in a massive increase in assessment appeals activity and appeals workload for the assessor's office. The following chart contains the most recent five-year history of assessment appeals:

Roll Year	Real Property Appeals
1995-96	26,820
1996-97	28,100
1997-98	17,803
1998-99	5,373
1999-00	3,182

At one point in the 1990s, a number of appeals were not being heard within the two-year timeframe that is mandated by law. This resulted in the appellant's opinion of value being enrolled as the assessed value, pursuant to section 1604(c). Some of the responsibility for failure to timely resolve appeals rested with the clerk of the board of supervisors, who is responsible for administration of the assessment appeals boards and hearing officers; and, some rested with the assessor's office.

To remedy this situation, a substantial investment in information technology was made by the clerk of the board of supervisors to better administer the property tax appeals program. In addition to this, a Memorandum of Understanding (MOU) between the clerk of the board and the assessor was consummated to facilitate more efficient processing of property tax appeals.

The combination of improved information technology in the clerk's office, improved coordination between the clerk and the assessor, and most importantly, a recovery of the real estate market in Orange County, has led to a substantial decrease in the appeals backlog. The Orange County Assessor and the clerk of the board of supervisors are to be commended for the improvements made in this area of property tax administration.

We reviewed a number of appeal cases and found each to be well documented, thorough, and well prepared.

Disaster Relief

Section 170 permits a county board of supervisors to adopt an ordinance that allows property tax relief on qualifying property damaged or destroyed by misfortune or calamity. The property tax relief is available to the owner of any taxable property whose property suffers damage exceeding \$5,000 (without his or her fault) in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restoration of value for the affected property.

Furthermore, a board of supervisors may limit eligible properties to those properties located in an area subsequently proclaimed by the Governor to be in a state of disaster or may adopt an ordinance that allows property tax relief for any damaged or destroyed property that qualifies. Orange County has adopted an ordinance with the more encompassing provisions.

Disaster or calamity applications are received and processed by the QAP staff who add calamity events to the ATS for tracking purposes and distribute records to the appraisal staff. Appraisers inspect the properties, make value determinations, and complete the reassessments.

Discovery of Calamities

The assessor obtains reports from the Orange County Fire Authority (an independent agency providing fire protection to 20 Orange County cities) as well as from those cities with their own fire departments. The reports provide the assessor with consistent and timely notice of fire damage or calamity. In addition, the assessor relies on inquiries from property owners, newspaper accounts, and permits issued by building departments for demolition or repair of damaged property. In Orange County, the owners of 301 properties applied for damage or calamity relief during the 1998-99 fiscal year. Of these, 195 were denied with the remainder granted tax relief.

We found that procedures for handling claims are appropriate. During the office survey one property sampled was found to have an unenrolled assessment event that ultimately affected the restored property value. It was confirmed by the assessor's staff that the restored disaster relief value was not correct due to a computer system problem related to assessment tracking. This problem is being addressed and corrected.

Supplemental Assessments

Chapter 498 of the Statutes of 1983 (SB 813) and other statutes relating to the supplemental roll were enacted to provide additional funding for public schools and to promote equalization among taxpayers. Section 75.10 provides that whenever a change in ownership occurs or qualifying new construction is completed, the assessor shall appraise the property at its full cash value on the date the change in ownership occurs or the new construction is completed. The difference between the new value and the existing value generates either one or two supplemental assessments, depending on the time of year the property changed ownership or new construction was completed.

In Orange County, supplemental assessment notices are computer-generated once the appraisal staff has completed a value change and the values are posted to the supplemental roll. We reviewed a number of parcels subject to supplemental assessments and noted that the assessment prorations, tax bill amounts, time periods, and ownership tracking were done appropriately.

RECOMMENDATION 1: Submit supplemental assessments to the county auditor on a monthly basis.

In our prior survey, we found that the assessor's staff submitted supplemental assessments to the county auditor very infrequently. Staff continues to process supplemental assessments only twice a year. This is usually done in February and October.

The assessor's response to this recommendation stated that personnel resources are not sufficient to provide supplemental notices on a monthly basis. Additionally, the assessor believes that handling supplemental notices as a batch process enhances quality control. The disadvantage of delaying the processing of supplemental assessments is the cash flow impact upon the county and the compaction of workloads in the county auditor and county tax collector offices. We recommend that the assessor investigate methods that would allow the submission of supplemental assessments to the county auditor on a more frequent basis.

Section 75.55(b) allows the board of supervisors to adopt an ordinance authorizing the assessor to cancel small supplemental assessments producing less than \$20 in taxes, or \$50 in taxes in case of eligible manufactured home accessories. In no event does it allow for cancellation of amounts in excess of the above mentioned figures.

RECOMMENDATION 2: Process all supplemental assessments unless exempted by the board of supervisors.

We found that the assessor's staff was, in effect, cancelling small supplemental assessments by not sending to the auditor those revised supplemental assessments generating small tax bills. The dollar amounts cancelled varied depending on the appraiser's judgment.

The Orange County Board of Supervisors has not adopted an ordinance giving the assessor the authority to cancel small supplemental assessments. Upon adoption of an ordinance by the board of supervisors, the assessor can legally cancel small supplemental assessments.

We recommend the assessor process all supplemental assessments regardless of the amount unless exempted by the board of supervisors.

Roll Corrections

Government Code section 4831 provides the legal authority for county assessors to make changes to the assessment roll after it has been completed and forwarded to the county auditor. Section 4831 provides that these changes shall be made within four years after the making of the assessment being corrected, with some exceptions as noted in the section.

Generally, roll corrections are made when information comes to the attention of the assessor regarding either assessee reporting errors or assessor clerical errors. Additionally, a roll correction is processed after the completion of an audit indicating that either an under- or overassessment of taxable property took place on a previous annual roll. A total of 13,898 roll correction transactions were processed by the assessor in fiscal year 1998-99.

Processing Roll Corrections

Roll corrections for real property are initiated by the grid appraiser (Orange County is divided into geographical divisions called "grids" for real property appraisal purposes). An assessment roll correction (ARC) form is completed by the appraiser and approved by the grid supervisor. The appraiser enters the relevant data into the ATS to initiate the transaction electronically.

In addition to these roll corrections relating to valuation, other roll corrections pertaining to real property are processed by the mapping, exemption, or identification sections. These sections handle ARCs of a non-valuation nature, such as adding, removing, or modifying exemptions, name changes, and/or address changes. ARCs are also processed for business property accounts after audits that indicate either an over- or underassessment took place.

The ATS generates a *Notice of Proposed Escape Assessment* letter that is mailed to the taxpayer. After a ten-day period to allow taxpayer inquiry, the ARC is processed and the billing process

begins. The documents pertaining to ARCs are indexed by year, in order of parcel number, and are maintained for seven years before being destroyed. We reviewed a number of both secured and unsecured ARCs and all procedures and legal references appeared to be correct. Overall, the ARC process appears to be efficient and properly administered.

ASSESSMENT OF REAL PROPERTY

The vast majority of any assessor's workload is in the area of real property assessment. As of the January 1, 1999 lien date, approximately 785,000 real property units were on the Orange County secured roll. This represents over 83 percent of all appraisal units, and it equates to 93 percent of the total locally assessed value in Orange County.

The Real Property Project is divided into two major sections, each led by a managing appraiser under the authority of the project manager, who reports directly to the assessor. One section is responsible for assessment appeals preparation, major properties, possessory interests, and California Land Conservation Act (CLCA) properties. The other section, referred to as roll production, is responsible for the appraisal of the residential, commercial, unrestricted agricultural, and industrial properties in Orange County. This section contains six appraisal groups that are each assigned a specific geographic area or grid in Orange County. Three other groups in roll production are responsible for the following: subdivision tracts, manufactured homes, and new construction. A total of 96 certified appraisers are assigned to the Real Property Project.

Change in Ownership

Section 60 defines a change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee interest.

Document Processing

The assessor's staff reviews over 100,000 documents yearly. Deeds and all recorded document images are received on-line daily from the recorder's office. PCORs (*Preliminary Change in Ownership Report*) are also received daily from the recorder's office. The PCORs are date stamped and screened for completeness. If a PCOR is not fully completed, the staff makes a copy and returns it to the grantee with instructions to complete the form. If a PCOR is not filed at the time of recording, a *Change in Ownership Statement* (COS) is mailed to the grantee.

The document screening section reviews and screens all documents received on-line from the recorder and matches them with the PCORs. Every document that pertains to real property is printed and reviewed by trained office assistants who determine whether the document should be kept or deleted.

The documents retained are reviewed for accuracy, and then routed to the transfer processing or mapping section, if necessary. The assessment technicians verify grantor, grantee, assessor's parcel number, and other pertinent information and enter this into the ATS electronic database. The ATS will then identify parcels that qualify for *Auto-Value*, a computerized direct enrollment system (see page 19). After this process is completed, the documents are forwarded to *Document Storage and Retrieval* (DSAR) for electronic scanning.

In the near future, the images for both the PCORs and deeds will be sent directly from the recorder's office to *FileNet* to be scanned. The system will then automatically join the deed and related PCOR together. This will substantially reduce the manual sorting currently performed by the roll support staff.

Change in Ownership Statements

Section 480 requires transferees of locally assessed real property to file a COS with the county recorder or assessor. It also provides for a penalty for failure to file such a statement within 45 days from the date of a written request by the assessor. Most transferees meet this requirement by filing a PCOR, as required in sections 480.3 and 480.4, at the time the document evidencing a change in ownership is recorded.

The assessor's staff electronically tracks the mailing and return of the COSs. If the COS is not timely filed, the staff will send a notice of the penalty to the transferee. In 1998, 18,558 COS notices were mailed and 2,536 failure to file penalties were applied.

We found that the assessor's staff effectively tracks incoming PCORs and COSs and applies penalties as required by section 482 and 483.

Auto Value

Certain transfers are selected for a systems calculated valuation program, also known as *Auto Value*. In order to be selected for an *Auto Value*, certain criteria must be met for both the transfer and the property. For example, the property must be a single-family residence with a sale price of \$1,000,000 or less. It must be a 100 percent transfer of a single parcel. It cannot be a timeshare, have personal property included in the transfer, or involve a property subject to the provisions of section 63.1 and 69.5 exclusions from change in ownership.

Once a parcel is selected for the *Auto Value* program, the transfer amount indicated by the full conveyance documentary transfer tax (DTT) is compared to the purchase price reported on the COS or PCOR. If the DTT amount indicates a variance of no more than \$3,000 with the sales price reported on the COS, the system will attempt to locate comparables sales within the database.

If supporting comparable sales are found, the property is valued at its reported sale price and reviewed by a senior appraiser. If sufficient comparable sales are not found but the reported sale price matches the DTT amount, then the parcel is sent to the senior appraiser for review. If the senior appraiser does not believe that there is sufficient evidence to support the sale price, the parcel becomes subject to conventional valuation by a field appraiser.

For the 1999 roll, reported sale prices were accepted for 15,416 parcels, and 7,222 parcels needed additional review.

Transfer List

Section 408.1 requires the assessor to maintain and make available for public inspection a list of property transfers which occurred within the preceding two year period. The type of information that should be included in the list is specifically outlined.

The assessor makes available for public inspection the required list of transfers. The list is divided into two parts. One part is for commercial/industrial properties and the other includes all other transferred properties. The transfers on this list are described by assessor's parcel number, grantor, grantee, document number, recorded date, and selling price indicated by the documentary transfer tax. The recorded deed is the source document for all data presented on this list. The confidentiality provisions of section 481 are observed because data gathered from confidential sources such as PCORs and COSs are not shown.

Improvement Bonds

Improvement bonds are a form of financing associated with land improvements that generally enhance land value. To obtain this type of financing, land benefiting from the improvements must be pledged as security for the payment of the loan. As a lien against the land, an improvement bond is an obligation that must be assumed by the landowner of record or his or her successor in interest.

SB 1997 (Chapter 783 of the Statutes of 1998), enacted as an urgency measure effective September 23, 1998, amended section 110 to establish the following:

There is a rebuttable presumption that the value of improvements financed by the proceeds of an assessment resulting in a lien imposed on the property by a public entity is reflected in the total consideration, exclusive of that lien amount, involved in the transaction. This presumption may be overcome if the assessor establishes by a preponderance of the evidence that all or a portion of the value of those improvements is not reflected in that consideration.

This legislation shifted to the assessor the burden of proving, in an assessment appeal, that the value of public improvements financed by debt assumed by a purchaser, in an open market transaction, was not included in the consideration exchanged for the real property.

The 1997 survey recommended that the assessor add the cash equivalent value of outstanding improvement bonds to the nominal sale price. The assessor has addressed our prior recommendation in accordance with the recent legislative change in 1998. The assessor's staff analyzed the impact of improvement bonds on selected residential properties in late 1998. This analysis indicated that bonded indebtedness did not significantly impact the sale prices of those properties. For subsequent roll years, each appraiser is responsible for determining bond values based on market evidence.

In light of the legislative change and the recent study done by the assessor, we no longer consider our prior recommendation necessary.

Parent/Child Transfer Exclusions and Base Year Value Transfers

Section 63.1 excludes from change in ownership the purchase or transfer, on or after November 6, 1986, of the principal residence and the first million dollars of other real property between parents and children when a claim is filed timely.

Section 69.5 allows qualified homeowners 55 years of age or older to transfer the base year value of their present principal residence to a replacement dwelling of equal or lesser value purchased or newly constructed within the same county on or after November 5, 1986, provided a claim is timely filed.

Additionally, section 69.5 allows the same base year transfer benefit to (1) transfers between two counties, on or after November 9, 1988, provided the receiving county passes an implementing ordinance, and (2) qualified applicants who are severely and permanently disabled and who have purchased or newly constructed a replacement dwelling within the same county or after June 6, 1990 (or between counties provided the receiving county passes an implementing ordinance).

For the 1998-99 fiscal year, the assessor's staff processed the following number of claims: 1,336 under section 63.1, and 1,169 under section 69.5.

We found the assessor's procedures for handling applications for treatment under either section 63.1 or 69.5 to be entirely consistent with the law and all BOE recommendations. The assessor is doing an excellent job of determining property eligibility, verifying, tracking, and processing the above claims.

Legal Entity Ownership Program

Since 1983, the BOE's Legal Entity Ownership Program (LEOP) has informed county assessors of changes in control of legal entities owning real property in California. The LEOP unit learns of these unrecorded changes in control, occurring through stock purchase or acquisition, from responses to questions appearing on corporate and partnership tax returns filed with the Franchise Tax Board (FTB). Typically, these types of changes in control are not recorded at the local county recorder's office and, thus, may go undiscovered by the county assessor's staff.

The LEOP staff gathers this preliminary information from the FTB and sends the acquiring and acquired entities a questionnaire requesting the date of transfer, manner of change in control, and disclosure of all parcels involved. Responses are accumulated, sorted by county, and forwarded to the appropriate assessors' offices.

These LEOP notices provide the assessors' staff important information on unrecorded transfers of real property that may otherwise be overlooked. Because some of the acquiring entities cannot furnish specific information, the assessors are advised to thoroughly check parcels listed to determine with certainty which are subject to reappraisal.

We reviewed properties on the assessor's LEOP list and found no errors pertaining to identification and change in ownership enrollment.

Another means of discovering changes in control of legal entities is the annual business property statement. It contains a section where the taxpayer can indicate a change in control. When indicated, the business property staff should refer the transfer information to the real property staff. Information from the property statement is usually more timely than the LEOP notification.

We found one account from the LEOP list in which the transfer had been indicated on the business property statement but the real property staff had not been notified. We suggest the assessor reiterate to staff the importance of communication and referrals between the business property staff and real property staff.

New Construction

Permits

Copies of building permits are received monthly from all permit-issuing agencies. Two of these agencies submit permit information on magnetic disk or tape. The roll support staff process all permits. Permits likely to result in a zero assessment are sent to senior appraisers to determine whether they should be checked for assessable activity or discarded. Permits that may lead to an assessment change are forwarded to the Real Property Project. Permits relating to business property, such as signs or tanks, are forwarded to the Business Property Project. Permits that meet specific criteria will lead to a new construction information request being mailed.

Cost Factors

The assessor's staff has developed their own construction cost tables that are based upon information from the BOE, builders, and returned new construction requests. The construction cost factors are updated annually based upon cost studies and entered into the ATS. Appraisers are then able to enter data pertaining to new improvements directly into the ATS. The ATS will then calculate, enroll, and mail valuation notices to the owners of newly constructed property.

In addition to its usefulness in valuing new construction events, the ATS calculates Replacement Cost New (RCN) and Replacement Cost New Less Depreciation (RCNLD) for the improvements on every parcel in Orange County annually. This information is useful for determining transfer price allocations to the improvement and land categories, required under California law for roll preparation purposes.

Tenant Improvements

Tenant improvements, also called leasehold improvements, are structure or fixture improvements made to rented or leased premises, installed by and paid for by either the tenant or the landlord. Tenant improvements can also be the original installation of finished space in a retail, office, or industrial development project. Tenant improvements are often subject to periodic changes by tenants remodeling to meet competitive demands of the marketplace or as new tenants move into spaces with tenant improvements abandoned by the former tenant.

Improvements could be (1) structure improvements that require assessment; (2) structure improvements that are considered normal maintenance or remodeling and do not qualify as new construction; or, (3) fixtures which should be classified, valued, and assessed as such.

Structural tenant improvements are valued by the Real Property Project and assessed against tenants on the unsecured roll. Supplemental bills are generated for tenant improvements. Real property appraisers usually receive notice of tenant improvements through the permit processing system. New construction requests are sent requesting additional information from tenants.

A portion of the *Business Property Statement* (BPS), Schedule B, is designed for the reporting of costs expended by tenants for improvements (structure or fixture) to rented premises (land and/or buildings). Frequently, it is difficult to determine from the BPS how to classify a reported structure improvement, or whether the expenditure adds assessable value to a property. The proper assessment of tenant improvements requires coordination between real property and business property appraisers.

In our previous survey, we recommended that structure, land development, and land improvement costs reported on the BPS be referred to the Real Property Project for evaluation and appropriate assessment. The assessor has responded by initiating a procedure where any current-year additions to reported structure costs from the BPS are entered directly into the ATS by the Business Property Project. These reported costs are listed on the *New Construction Reported To Business* report and can be printed out for use by the Real Property Project to determine whether reported costs have been properly analyzed and assessed.

When fixtures are reported on the BPS (for a business) the reported cost is trended and assessed by the Business Property Project. When a building permit is received by the Real Property Project (for the same business), an appraiser inspects the site and determines what amount, if any, should be assessed as tenant improvements (including both structures and fixtures).

Coordination and communication between the Business and Real Property Projects is informal according to office policy. We would caution the assessor that a formal procedure is more likely to ensure that coordination and proper assessment takes place. We suggest that formal procedures be developed and implemented. Assessors' Handbook Section 504 (AH 504), *Assessment of Personal Property and Fixtures*, contains a detailed description of suggested procedures in this area.

Interest on Construction Funds

Large companies with sufficient funds may finance their own construction projects. The cost of interest during construction is a proper component to include in the cost approach to value. We found that this cost component is being properly considered because the assessor's cost section staff derive their costs from publications that include construction loan interest. The historical cost prior to being enrolled is also validated by programmed costs, thus ensuring that a value includes all appropriate component costs.

Major Properties

RECOMMENDATION 3: Audit the accounts of properties that have major new construction completed.

The Orange County assessor sends a letter to property owners requesting data about new construction costs. Some are returned completed; others are not. When data are not submitted, county cost factors are used to estimate value in many cases.

We recommend that an auditor be assigned to collect cost data after major new construction projects have been completed. This will ensure that accurate and complete data is used in the appraisal process, including all "soft costs," i.e., interest on construction, engineering fees, development fees, etc.

Commercial and Industrial Property Appraisal

Commercial and industrial appraisals are the responsibility of a single commercial specialist in each of the six geographic areas or grids. Designating specialists for these types of property is for quality control purposes. Twenty-one property types have been targeted for such handling. They include restaurants, hotels, shopping centers, bowling alleys, and large warehouse complexes, among others.

The commercial specialist for each area receives a list of transfers for the year previous to the lien date. The staff appraisers in each grid will do the appraisals, using the commercial specialist as a consultant and a source for obtaining market and income data.

For change in ownership events, the common practice is to accept the sale price as full cash value on verifiable transfers. The income approach is also employed when reliable data is available. Capitalization rates are derived from market sales via *CompsLink* (an on-line service for commercial/industrial comparables by property type). The assessor also subscribes to 11 publications that are used for referencing and developing property income and expense data. For new construction, the primary method used is the cost approach using county cost factors.

For sales and income analysis, the commercial and industrial appraisers use in-house generated questionnaires. The appropriate questionnaire requesting income and expenses or new construction data is selected based on the activity triggering the review and revaluation. We found the questionnaires comprehensive and an effective tool for the collection of data.

We reviewed 33 commercial and industrial property records. For the majority of properties reviewed with a change in ownership and a confirmed sale price, the sale prices were enrolled and comparable land sales were used for allocating value to land. In the valuation of properties using the income approach, we found no problems relating to the derivation of capitalization rates or in the staff's analysis of revenue and expenses.

Composite Property Unit

The assessment of major manufacturing facilities, theme parks, enclosed shopping malls, large office complexes, and major hotels is centralized in the composite unit of the Real Property Project. Properties valued as composite units are (1) high value properties with a substantial degree of appraisal complexity, and (2) properties with a large amount of trade fixtures.

The composite unit staff initially appraises all newly constructed major properties. When the initial assessment is complete, only the more complex properties remain the responsibility of the composite unit staff. The remainder are transferred to the Real Property Project.

Centralizing the valuation responsibility for these properties allows the assessor to maintain continuity when additional construction and demolition occurs. The composite unit staff currently monitors 735 parcels (which comprise 127 economic units owned by 90 taxpayers) with a combined assessable value of \$11.5 billion.

Declines In Value

Section 51 requires that real property subject to article XIII A of the California Constitution be annually assessed at the lower of the factored base year value or the current market value. It is the responsibility of the assessor to discover properties where a decline in value has occurred. This reduction in the assessment is conditional; each year it may be raised to the level of the factored base year value if a property's market value recovers and exceeds the factored base year value.

The current real estate market situation in Orange County is one of recovering values. Many properties that previously had values reduced under the provisions of section 51 in the early and mid-1990s have substantially or fully recovered in value. The Orange County Assessor, pursuant to section 51(e), must adjust the assessed values of these properties to either the lower of the current market value or the factored base year value as of the January 1 lien date.

For the January 1, 1999 lien date, the assessor reviewed more than 254,000 properties that were being valued pursuant to section 51. The results of this review were as follows:

◆ Economic adjustment reductions	242
◆ No change	796
◆ Partial restoration toward factored base year value	184,220
◆ Full restoration to factored base year value	69,327

The reviews of residential property values are based on computer-generated reports for each of the neighborhood tracts in Orange County. An appraiser reviews the report for each tract comparing market transactions, property attributes, and factored base year values. The appraiser makes a determination as to whether a partial or full restoration in value is warranted, then updates the electronic record for that property in the ATS. For properties in less homogeneous residential neighborhoods, or for those zoned commercial or industrial, reviews are done on a case by case basis.

Cable Television

There are seven cable television (CATV) companies operating in 39 franchise territories within Orange County. Property statements are filed for each franchise territory, so 39 CATV property statements were filed as of January 1, 1999. Orange County is composed of 33 cities and a number of urbanized unincorporated areas. The franchises awarded to CATV companies (and therefore reporting areas) follow this geographic pattern. Several areas have more than one CATV provider.

Valuation of CATV properties is controlled by the *Framework for Cable Company Assessment Appeals* (hereafter “*the Framework*”), an agreement between the Orange County Assessor and the CATV companies. This *Framework* was consummated in October of 1995 after a substantial period of litigation.

The most important case during the period of litigation was *County of Orange vs. Orange County Assessment Appeals Board No. 1 (1993) 13 Cal.App.4th 524*. The finding in this case was that the Orange County Assessment Appeals Board (AAB) was within its discretion to disregard the assessor’s use of a unitary valuation method and instead rely upon a cost approach for the valuation of the tangible property used by a CATV company. The AAB then valued the possessory interest of the CATV company using the method prescribed in section 107.7. This methodology is now being used to value all CATV properties in Orange County.

Allocation of value for both tangible property and possessory interest is based on the tangible property value within each tax-rate area (TRA) for the 39 reporting areas. This means that TRAs that contain a central office of the CATV company receive more value than an area that has just underground or pole-mounted lines. This is related to the historical cost of installation. Recently, CATV companies have been upgrading their facilities with fiber optic cable so that telephone and high-speed Internet service can be offered. The assessor is monitoring this investment and updating assessments and allocation factors accordingly.

Possessory Interests

A taxable possessory interest (PI) exists whenever a private party has the exclusive right to beneficial use of real property owned by a public agency. The possession must be durable, independent, exclusive, and for private benefit and should be valued using market rent, rates, and an appropriate term of possession.

A group of three appraisers, supported by a senior appraiser and a support staff member, are responsible for valuing possessory interests. The possessory interest group maintains a list of government agencies known to have possessory interests in the county. On an annual basis, a BOE-prescribed letter is mailed to each government agency requesting notification on new possessory interests or changes to existing possessory interests. Responses are logged on the agency list. When new leases are originated or revised, copies are requested and maintained by the possessory interest assessment group.

In addition to the discovery of new possessory interests through agency responses to the request letter, the appraisal staff employs several other discovery methods. They include obtaining

permits for new construction on government property, reviewing referrals from field appraisers from other units, and reviewing newspaper articles, city reports, and board of supervisor minutes.

In our prior survey report, we found a number of aircraft tiedowns escaping assessment at the John Wayne and Fullerton airports. The assessor is now assessing all 512 tiedowns at these airports using economic rents and terms of possession based on a study of market rents and terms.

In the 1997 survey report, it was suggested that possessory interest assessments were escaping at Edison Field, the Anaheim Convention Center, and the Orange County Fairgrounds. Possessory interest assessments are being made to the primary lessee/operator of Edison Field and the convention center, and the assessor's staff is in communication with fairground operators to ensure that all taxable possessory interests are assessed.

The 1997 survey report also suggested that the assessor's capitalization rates for agricultural property on military bases was incorrect. The assessor surveyed other counties and concluded that the rates in question were reasonable for the type of parcels in question. We reviewed his study and concluded that the capitalization rates are reasonable and no further suggestion is needed.

One area of concern is the assessment of dedicated parking spaces in government-owned parking facilities. Often these spaces are assigned to elected county officials who receive the spaces by virtue of their offices.

RECOMMENDATION 4: Enroll dedicated parking spaces in government-owned parking facilities.

We found that such parking spaces have not been enrolled as possessory interests. We recommend the assessor do so.

Taxable Government-Owned Property

The Constitution of the State of California exempts from taxation property owned by local governments. However, article XIII, section 11 of the California Constitution provides that properties owned by government agencies but located outside the agency's boundaries are taxable, if the property was taxable at the time of its acquisition. Such properties are commonly referred to as section 11 properties.

The taxable value of section 11 land must be the lowest of (1) the 1967 assessed value adjusted by a factor supplied annually by the BOE ("Phillips Factor"), (2) the current market value, or (3) the factored base year value.

Improvements subject to assessment under section 11 that were taxable when acquired by the government agency, or their replacements, must be assessed at the lowest of (1) current market value, (2) full cash value as defined by article XIII A of the California Constitution, or (3) the highest value ever used for taxation for the replaced improvements. Improvements newly constructed subsequent to acquisition are exempt.

There are approximately 173 section 11 parcels in Orange County. A report generated by the ATS of all "0" valued government properties was reviewed by the survey team. The tax-rate area codes of the government agencies were cross-referenced with the tax-rate area code index. This was done to determine whether listed government-owned properties were within the boundaries of the government agency. A sampling of this report indicated that selected items were properly exempt from assessment. A review of the 173 assessable parcels indicated that proper valuation methods are being used.

Virtually all locally assessed water company property in Orange County is located on section 11 land. Many cities provide water service to small areas outside their incorporated boundaries or to unincorporated "islands" within their boundaries. After reviewing a number of these appraisals, we found that proper procedures are being followed.

Petroleum Properties

The valuation of petroleum properties in Orange County provides insight into the value of land in urbanized southern California. While the value of petroleum property in Orange County is still over \$200 million dollars, it represents less than 0.15 percent of the total roll value. Petroleum production has reached an economic limit at many fields and environmental remediation projects have commenced.

For many petroleum properties, the surface rights have become more valuable than the mineral rights. The increase in surface land value has prompted some developers to purchase petroleum properties still capable of production. Wells are being plugged and soil contamination removed to make way for new residential and commercial developments. This creates an issue as to whether the valuation of the surface rights properly reflects the impact of environmental contamination. Liability for environmental cleanup of former oil fields generally rests with the mineral rights owner or lessee. Therefore, environmental remediation costs are typically reflected in the value of the mineral rights.

The senior auditor-appraiser responsible for petroleum properties works closely with the Real Property Project staff to coordinate valuation. He tracks abandonment reports and fire permits to determine whether production at a well has actually terminated, or has simply been suspended waiting for higher petroleum prices. Overall, the assessor's mineral properties assessment program is well organized and well documented.

California Land Conservation Act and Rural Properties

An agricultural preserve contract is established between a landowner and the county or city pursuant to the California Land Conservation Act (CLCA) of 1965. Lands under contract are assessed at the lowest of (1) fair market value, (2) agricultural income-producing ability, including the value of any compatible uses, or (3) factored base year value, as defined in section 110.1.

For the 1999-2000 lien date, Orange County had approximately 12,647 acres (52 parcels) encumbered by nine CLCA contracts with a total assessed land value of \$46,094,062. This represents less than 0.02 percent of the real property portion of the 1999-2000 assessment roll.

The acreage of properties held under CLCA contract declined by 17,966 acres from the previous roll year. Presently there are no cancellations and only 345 acres (nine parcels) are in nonrenewable status (five have a remaining term of one year and four have a remaining term of seven years).

We reviewed several restricted and non-renewal parcels and found all were valued correctly. It is evident that open-space land use remains unpopular in Orange County due to the increasing demand for more residential and commercial development. There are 1,581 rural, restricted and unrestricted parcels in the county with a total 1999-2000 assessment of \$327,426,356. Most of the rural parcels are land only. Nine parcels represent 40 percent of the total improvement value at \$38,512,226. The CLCA portion represents only 14 percent of the total rural tax revenue.

Valuation of CLCA properties is the responsibility of the special projects group which is part of the composite unit. Administration of the CLCA assessment program is automated via the ATS. The variable items (yield rate, income, and factors used for nonrenewals) are entered into the ATS which calculates the restricted values and compares the restricted values with the factored base year value to determine the taxable value. In Orange County, land is extremely valuable given the urbanized nature of the region. Consequently, current market value is rarely the lower value indicator and is presumed to set the upper limit of value.

The unrestricted rural properties are assigned by location to the grid appraisers for review and valuation. The assessor does not send out formal questionnaires requesting production and crop information to the taxpayer or the Agriculture Commissioner. Information obtained is either through a field inspection or by telephone.

Most of the rural land in Orange County consists of grazing lands, nurseries, and row crops. Strawberries are the largest crop in terms of revenue. The total assessed value generated from rural properties equals 0.016 percent of the 1999-2000 roll value. Most of the rural properties that are bought and sold are intended for nonagricultural use. For this reason, the market approach is the most widely used method of valuation. The assessor's valuation of rural properties and CLCA properties complies with the applicable parts of the Revenue and Taxation Code and BOE guidelines.

Timeshares

Timesharing is a system of joint ownership in a vacation home, condominium, campground, or other property in which each of the owners may occupy the unit for a specified duration and time of year.

When a timeshare is initially purchased from a developer, the sale price typically includes nonassessable items, such as personal property (furniture, linen, kitchenware, and household items), vacation exchange rights, club memberships, and prepaid expenses such as maintenance fees for the upcoming year. The value of these items are not assessable and should not be considered in the valuation process.

The assessor's staff conducted a study of initial timeshare sales from developers. Based on that study, they determined that 40 percent of an initial purchase price of a timeshare ownership increment could be attributed to items such as personal property, promotions, marketing, and other services that are not assessable.

For the 1999 roll year, Orange County had 28,319 timeshare appraisal units with a total assessed value of \$129,406,761. Most of the timeshares in Orange County are located in beach communities. Timeshare values vary according to the location, amenities, size of the living unit, and time of year or season for which an ownership increment is purchased. The assessor's staff categorizes units by season and time period for each timeshare project.

The assessments for timeshares in the initial construction phase are based on historical cost. When individual timeshares are sold to a third party, the market approach is the preferred method of valuation. Necessary adjustments are made for nonassessable items when identified by the assessor's staff.

RECOMMENDATION 5: Ensure that timeshares are assessed in a consistent manner.

Approximately 80 percent of the timeshares in Orange County are in a decline-in-value status. However, there is no indication that these declines in value are systematically reviewed each year for either base year value restoration or further declines in value.

When timeshares transfer, the sale price is typically enrolled. But, the nature of the secondary market for timeshares is such that there can be wide variances in sales prices between highly comparable properties. Only if there is sufficient evidence of overall declines would the assessments of a whole project be reviewed.

We recommend that the assessor review his timeshare assessment procedures to ensure consistent and equitable assessments for all timeshare increments.

Manufactured Homes

A manufactured home is subject to local property taxation if first sold new on or after July 1, 1980, or by the owner's request for conversion from vehicle license fee to local property taxation. A manufactured home is defined in sections 18007 and 18008 of the Health and Safety Code, and statutes prescribing the valuation and assessment of manufactured homes are in sections 5800 through 5842.

Orange County has approximately 12,000 manufactured homes on the property tax roll, virtually all of which are located in 215 manufactured home parks. The assessor properly classifies them as personal property. The countywide valuation of manufactured homes is the responsibility of two appraisers and one support person. One appraiser, responsible for new manufactured homes, recently retired. The position is now vacant and no one has yet been trained to replace him. The other appraiser processes all transactions involving existing manufactured homes.

The valuation process for a new manufactured home begins with a change in ownership. If the home is new, the appraiser diagrams, describes, and classifies it on the appraisal record. A

replacement cost estimate, including accessories, is calculated using the BOE's Assessors' Handbook Section 531 (AH 531), *Residential Building Costs*.

If the home is not new, the value estimate is based on the *Kelley Blue Book Official Manufactured Housing Guide*. Use of a recognized manufactured home value guide ensures that the assessed value does not include increments of value attributable to factors other than the manufactured home.

Manufactured home assessments are reviewed annually for a decline in value. Staff in the Quality Assurance Project (QAP) conducted a study to determine the value lost each year for certain manufactured home models. They determined that a 30-year life was appropriate for manufactured homes in Orange County. The QAP staff believes that selection of percent good adjustments from this table provides a better indication of current market value than recalculating the value from the *Kelley Blue Book*. We suggest that this study be performed annually and expanded to include more models of manufactured homes.

Electric Generation Plants

As part of its efforts to create a competitive marketplace for electricity in California, the California Public Utilities Commission (CPUC) required the three major investor-owned utilities in California to sell a large portion of their fossil fueled power plants. After this order, the three major utilities decided to sell all of their fossil fuel generation plants. Consequently, all of these plants that were previously assessed by the BOE are now subject to local assessment.

On September 1, 1999, the BOE adopted Property Tax Rule 905, *Assessment of Electric Generation Facilities*. Rule 905 was adopted to clarify the jurisdiction of the BOE to assess certain public utility property following the restructuring of the electrical industry pursuant to Statutes 1996, Chapter 854 (AB 1890).

The rule provides that an electric generation facility shall be state-assessed property if the facility is owned by a company that holds a Certificate of Public Convenience and Necessity (CPCN) issued by the CPUC for the construction of that facility, or it is owned by a company that is otherwise state-assessed. All other generation facilities shall be locally assessed.

Huntington Beach Electric Generation Plant

In Orange County, one fossil fuel generation plant transferred from Southern California Edison Company to the AES Corporation in 1998. This Huntington Beach Electric Generation Plant is an older steam plant located on the Pacific Coast Highway in the City of Huntington Beach. According to documents filed with the CPUC by Southern California Edison, the plant has a dependable summer capacity rating of 563 Megawatts.

Orange County Assessor's Position

The assessor has worked closely with the Los Angeles County Assessor in establishing the assessment for the 1999 lien date because the AES Corporation purchased the Huntington Beach

plant together with the Redondo Beach and Alamitos Generating Stations in Los Angeles County.

Proper allocation of the contract purchase price is at issue, as well as development of a consistent and defensible appraisal methodology. To this end, the California Assessors' Association has sponsored a working group to develop an appraisal methodology for these fossil-fueled plants in the newly deregulated electric market. Kern County has taken a leadership position in this effort, primarily because of its extensive experience in assessing the large number of cogeneration plants located in its jurisdiction.

The assessor has established a value for the 1999 lien date and issued a supplemental assessment which is consistent with the position of the BOE staff as expressed in Letter To Assessors (LTA) 99/83.

Historic Properties

To encourage the renovation and maintenance of historical properties throughout California the Legislature has provided a tax incentive for owners of historical properties by mandating specific appraisal procedures for property tax purposes. These procedures are explained in section 439.2.

Historical properties are assessed annually at the lowest of their (1) factored base year value, (2) current market value, or (3) restricted value. Furthermore, section 439.2 prohibits the assessor from considering comparable sales data and requires that the restricted value be determined using an income approach to value.

There are 38 properties in Orange County that qualify as historical properties. We reviewed 11 of them, which included two non-owner occupied and seven owner-occupied historical properties. Economic rents are established by a detailed rental study and a 10 percent charge for expenses is subtracted from the revenue to arrive at a net operating income. The appraiser uses the lowest of the restricted value, the factored base year value, or the current market value to arrive at the historical property assessment. We found that the assessment of historical properties is in compliance with sections 439 through 439.4.

Church, Religious, and Welfare Exemptions

California property tax laws provide for three exemptions that may be claimed on church property:

- The church exemption, which may be claimed on property that is owned, leased, or rented by a religious organization and used exclusively for religious worship services.
- The religious exemption, which may be claimed on property owned by a religious organization and used exclusively for religious purposes including religious worship, preschool, nursery school, or parochial school activities.

- The welfare exemption, which may be claimed on property owned by a religious organization and used exclusively for one or more of the above activities and/or any other religious and/ or charitable purposes and activities.

The church and religious exemptions are administered by the assessor of the county in which the property is located. The BOE's role is to prescribe the forms and procedures necessary to carry into effect these exemptions and to provide guidance to county assessors and others in the administration of these exemptions. In Orange County, the assessor has approved 947 church and religious exemptions with a total property value of \$798,082,991.

The welfare exemption is administered jointly by the county assessor and the BOE. The welfare exemption may be claimed on property owned and operated by community chests, funds, foundations, or corporations organized for and used exclusively for religious, hospital, scientific, or charitable purposes.

The BOE in the *Matter of St. Jude Hospital Yorba Linda d.b.a. St. Jude Heritage Health Foundation (1997)* recognized that a multispeciality clinic can be eligible for a welfare exemption, under the hospital purposes aspect of the exemption, even if all of the components of its operation are not at one facility in one county. For the 1997 and 1998 lien dates, the assessor granted an exemption to such a multispeciality clinic.

RECOMMENDATION 6: Allow the welfare exemption for the total area of church parsonages.

Orange County had only four or five claims for exemption of church parsonages. We reviewed some claims for exemption of parsonages and found that the assessor did not grant the exemption to the total area of parsonages. The position of the assessor is that only the part of the property actually used for church-related activities should be allowed an exemption.

This is contrary to the BOE position, as stated in Assessors' Handbook Section 267 (AH 267), *Welfare, Church, and Religious Exemptions*, that the entire parsonage should be exempted if the organization's use of the property is incidental to and reasonably necessary for the accomplishment of the organization's exempt purposes.³ Accordingly, we recommend the assessor grant the welfare exemption to the total area of church parsonages.

³ Subsequent to our fieldwork for this survey, Property Tax Rule 137 was amended to provide regulatory directions that are consistent with the guidelines expressed in AH 267.

ASSESSMENT OF BUSINESS AND PERSONAL PROPERTY

The assessment of business personal property, business fixtures, aircraft, and boats in Orange County is the responsibility of the Business Property Project. The total value of the unsecured roll for the 1999 lien date was \$12.8 billion, which equates to approximately 6 percent of the total local assessment roll. The unsecured roll included approximately 153,000 appraisal units, which was comprised of 117,000 business property accounts, 35,300 boats, and 875 aircraft.

The Business Property Project is divided into two major divisions: business and audit. The business division is divided into two sections: processing/assessment services and assessment appeals/ land based resources. The audit division consists of four audit teams. Each division is led by a managing auditor-appraiser, who reports to the Business Property Project Manager. A total of 50 auditor-appraisers are employed by the Business Property Project.

Property Statement Processing

The processing/assessment services section employs 13 auditor-appraisers under the guidance of a senior auditor-appraiser. During the processing season, additional data entry support is provided by the Roll Support Project. After the processing season, the auditor-appraisers assigned to the processing/assessment services section perform other duties such as canvassing and taxpayer liaison work.

The ATS plays a major role in the efficient and timely processing of *Business Property Statements* (BPSs). For existing accounts, a BPS is mailed with the previous year's reported amounts preprinted on the document. This makes reporting a simpler task since the assessee only has to note the cost of current year acquisitions and/or make reductions in the previous years for retirements from service.

The property statement also contains the Standard Industrial Classification (SIC) code for each reporting entity. This facilitates the selection of the valuation factor tables in the ATS for processing and enrollment. For the 1999 lien date, the following is a summary of business property statements (by property type) processed by the assessment services section:

39 Cable Television Properties	55 Agricultural Properties
128 Business Welfare Properties	4,084 Tenants / Banks on Composite Property
760 Apartment Properties	482 Composite Properties
82,000 Regular Form 571L Properties	14 Commercial Airline Properties
611 Gas Station Properties	237 Petroleum Equipment – Unsecured
728 Bank / Savings and Loan Properties	101 Water Utility Properties – Secured
143 Detotalled Tenant / Banks on Composite Property	5 Sand and Gravel Properties- Secured
884 Residential Properties	170 Mineral Rights Properties– Secured

The Business Property Project did not have a direct billing program as of the 1999 lien date. Planning was underway during our survey fieldwork to implement a program for the 2000 lien date. Overall, the business property statement processing function is performed efficiently and effectively.

Audit Program

Mandatory Audits

Section 469 (further explained in Property Tax Rule 192) provides that all business property accounts with an aggregate full cash value of \$300,000 or more for four consecutive years shall be subject to an audit by the assessor. The ATS flags all accounts meeting the criteria of section 469 for audit and generates the necessary management reports, audit workpapers, and assessee correspondence.

If an audit cannot or will not be completed by the time allowed for in section 532, a waiver is requested from the assessee to extend the time available for audit examination. If an assessee is not agreeable to this and it appears a liability may ensue from audit examination, an arbitrary assessment is enrolled. This arbitrary assessment can be adjusted if an assessee later consents to an audit examination.

RECOMMENDATION 7: Bring the section 469 mandatory audit program to current status.

As of July 1, 1999, 505 accounts meeting the criteria for mandatory audit in fiscal year 1998–99 were being carried over into fiscal year 1999-00. This represents 28.26 percent of all mandatory audits in Orange County for the 1998-99 fiscal year. According to the most recent budget and workload survey published by the BOE, the statewide average carryover rate is 12.2 percent, based on self-reported data.

While progress is being made to reduce the audit carryover, it continues at a relatively high level. Necessary training reduces the productivity improvement that would be expected from the ten auditor-appraisers recently hired. We recommend the section 469 mandatory audit program be brought to current status.

In addition to the mandatory audit program, assessors should also audit accounts below the section 469 criteria. This communicates to the business community that all accounts are potential audit candidates and reinforces the need for all assessees to file accurate and complete property statements. We recommended in our previous survey report that the assessor implement a nonmandatory audit program. As of the time of our fieldwork, procedures have been written and accounts selected, but there were no completed audits with which to evaluate the program.

RECOMMENDATION 8: Discontinue the arbitrary minimum assessment policy applicable to audit findings.

For several years, the Orange County Assessor's Office has had a policy of not enrolling audit adjustments of less than \$5,000 full value, and we have made recommendations on this subject in the prior two surveys.

In his response to the 1997 survey report, the previous assessor declined to implement the recommendation on the basis that it was not cost effective to process audit adjustments of less than \$5,000. While this may be true, there is no basis in law for failing to enroll escaped property discovered by audit.⁴ Section 531 specifically requires:

If any property belonging on the local roll has escaped assessment, the assessor shall assess the property on discovery at its value on the lien date for the year for which it escaped assessment.

We again recommend that the assessor discontinue the minimum audit enrollment policy.

Valuation of Aircraft and Boats

Aircraft

Section 5363 provides that the market value of aircraft shall be determined in accordance with the standards and guides to the market value of aircraft as prescribed by the BOE. In Letter To Assessors (LTA) 97/03, dated January 31, 1997, the BOE prescribed that the *Aircraft Bluebook Price Digest* be used to value general aircraft. In the cases where aircraft are not listed in this price guide, the BOE approved use of the *Vref Aircraft Value Reference*. The BOE further directed that the listed average retail values shall be reduced by 10 percent to provide reasonable estimates of fair market value for aircraft in truly average condition on the lien date.

An adjustment for overall condition of the aircraft, additional or special equipment, airframe hours, and engine hours since the last overhaul must be made to book prices to determine correct market value. The values of newer aircraft are most affected by the presence or lack of optional equipment, while the values of older aircraft are influenced more by the condition of the aircraft.

The assessor uses the recommended aircraft price guides and makes all necessary adjustments to book prices.

Boats

The assessor's Business Property Project assessed 36,000 boats and documented vessels, and 18,000 personal water craft as of January 1, 1999. Sources of discovery include harbormaster reports, dock walks, and Department of Motor Vehicles (DMV) reports.

RECOMMENDATION 9: Annually value pleasure boats at market value.

When a boat is initially brought into the county and becomes taxable, a *Vessel Owner's Report* is sent to the owner. It is then valued using the information from the owner's report and boat valuation guides such as *BUC* or *NADA*. These values are enrolled and depreciated annually in subsequent years by a predetermined percentage. The depreciation amount varies according to

⁴ The low value exemption – currently \$1,350 in Orange County – is applicable only to the total value of the property and cannot be applied to a portion of the property, such as an escape.

the previous year's value of the boat and is applied to all pleasure boats regardless of class or size.

The appraisal of pleasure boats should be based on selling price or published boat value guides. A fixed depreciation rate applied to all pleasure boats regardless of class or size may not reflect actual boat values.

One way to establish a more equitable market-oriented depreciation rate is to select sample boats from "new" and "used" groups of five classes each (sailboat, inboard, outboard, inboard-outboard, and personal watercraft). Trends in market values for these groups and classes could be determined by comparing published boat values of the current and previous year. Once trend factors are computed, they should be applied to all boats within each class and group. This recommendation was made in our prior survey. No changes have been made to the boat appraisal program.

We again recommend that the assessor annually value pleasure boats at market value.

Equipment Factors

Assessable values for machinery and equipment are typically computed by multiplying reported historical cost (by year of acquisition) by a corresponding valuation factor. A valuation factor is the product of a price index and percent good factor. Accurate assessments require the proper choice and application of these equipment price indices and percent good factors.

The BOE annually publishes price index and percent good factors, which are used to compute current replacement costs from historical costs for valuation purposes. Assessors' Handbook Section 581 (AH 581), *Equipment Index and Percent Good Factors*, contains 12 index factor tables for commercial equipment, six index factor tables for industrial equipment, and two mobile equipment index factor tables (one for agricultural equipment and one for construction equipment). The percent good factors for commercial and industrial equipment are based on a constant terminal income stream adjusted for declining income. Additionally, separate tables have been developed for cable television.

In addition to these tables, the BOE has issued special valuation tables (after extensive study and discussion with industry experts) for the following property types: three categories of computer equipment, semiconductor manufacturing equipment, and most recently, four categories of equipment used in the biopharmaceutical industry.

RECOMMENDATION 10: Use the BOE's equipment index factors from AH 581 as intended.

The assessor uses the suggested price index tables published in the AH 581, but not as intended. The Business Property Project uses an arithmetic average of the 12 classes of commercial equipment in the AH 581 to compute 3 commercial valuation factor tables, and an arithmetic average of the 6 classes of industrial equipment to compute 3 industrial valuation factor tables.

This average index factor is applied to all equipment in the respective class to determine the replacement cost new (RCN) of individual property items. Because there is a wide range of factors, it is important that the appropriate table be selected. While overall totals may show only a small difference, the accuracy of specific categories will be materially distorted. Averaging indices sacrifices accuracy for convenience. Some classifications of equipment will be overassessed, some underassessed, and some will be properly assessed.

Mass appraisal of business property requires appraisal methods that achieve fair and equitable assessed values within the constraints of available time and staffing. Innovative uses of computer technology have greatly streamlined the business property appraisal process in recent years. The ATS is a prime example of this. With relatively small programming and process changes, the use of specific commercial and industrial valuation factors can be facilitated.

A business type identification code, commonly known as a *SIC* code, is already required for each business account. Assigning each of the BOE recommended tables to the appropriate *SIC* code is a relatively simple computer-programming task. This will result in more accurate appraisals with little or no increase in processing time or cost.

We recommend the assessor use the BOE's equipment index factors from AH 581 as intended.

RECOMMENDATION 11: Assess computers using the BOE's recommended computer valuation factors as intended.

The Business Property Project uses the BOE's computer valuation tables, but a minimum percent good has been established for computers more than six years old. The BOE tables are based on extensive data gathered by industry representatives, the California Assessors' Association, and BOE staff. Compared to values determined by using these data, the assessor's minimum values result in slightly higher assessments of older computer equipment.

We recommend the assessor use the BOE's recommended valuation factors for computers as intended.

Leased Equipment

One of the responsibilities of the Business Property Project is the discovery and assessment of taxable leased equipment. The leased equipment section in the Business Property Project is staffed with one auditor-appraiser II and 2.5 auditor-appraiser trainees. For the 1999-2000 tax year, the staff processed over 1,790 business property statements for leased equipment.

Lessees are asked to report all leased equipment (assessable property in their possession but belonging to others) on the annual BPS. Name and address of the owner, the month and year of acquisition, the cost to purchase, and other relevant information is requested.

A BPS is also sent to all lessors that are in the business of leasing personal property to others, requesting name and address of all lessees, the acquisition date, cost, and relevant information regarding their leased equipment. The leased equipment section staff receives the BPS of both the lessees and lessors and matches them to ensure that all reported leased equipment is assessed.

RECOMMENDATION 12: Ensure that leased equipment retained by the lessee upon lease termination continues to be assessed.

This recommendation is repeated from our previous survey report. When a lease expires and is no longer reported to the assessor, many times the lessee has acquired the property by exercising a lease option. From that point on, the lessee should report the original cost of the property as though it had been acquired on the date of lease initiation. We found that property seldom continues to be assessed once a lease is terminated.

The assessor has no policy to track such equipment. One method to ensure that a former lessee reports off-lease equipment is to compare the lessor's current year filing with the prior year. Any leases that have been terminated would not appear in the lessor's current year filing. The prior year lease information could then be compared with the lessee's current filing. If the lessee failed to report this formerly leased equipment, further investigation would be needed. The equipment may have either been returned to the lessor or kept by the lessee, depending on the leasing agreements and the needs of the lessee. If kept by the lessee, the new owner is required to report the equipment's original cost and the acquisition year. This type of tracking could be developed within the ATS.

We recommend the assessor develop a means of tracking leased equipment so as to ensure that leased equipment retained by the lessee upon lease termination continues to be assessed.

APPENDICES

A: Assessment Practices Survey Group

Orange County

Chief, County Property Tax Division:

Charles Knudsen

Survey Program Director:

Gene Palmer

Principal Property Appraiser

Survey Team Supervisor:

Claudia Tendal

Supervising Property Appraiser

Survey Team Leader:

John Corum

Senior Specialist Property Auditor Appraiser

Survey Team:

Robert Donay

Associate Property Appraiser

Yvette Barrios

Associate Property Appraiser

David Dodson

Associate Property Appraiser

Laura Ruiz

Associate Property Appraiser

Michael Hinijos

Associate Property Appraiser

Tina Krause

Associate Property Appraiser

Beverly Morrison

Associate Property Auditor Appraiser

Delia Garcia

Tax Technician II

B: Relevant Statutes and Regulations***Government Code*****15640. Survey by board of county assessment procedures.**

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of Records; Appraisal Data Not Public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.
- (b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.
- (c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code**75.60. Allocation for administration.**

- (a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6(commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.
- (b) For purposes of this section:
- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
 - (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
 - (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations**Rule 370. Random selection of counties for representative sampling.**

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
 - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
 - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, “significant assessment problems” means procedure(s) in one or more areas of an assessor’s assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:
 - (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
 - (2) the sum of all the differences between the board’s appraisals and the assessor’s values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor’s entire roll, exceeds 7.5 percent of the assessment level required by statute.
- (b) For purposes of this regulation, “areas of an assessor’s assessment operation” means, but is not limited to, an assessor’s programs for:
 - (1) Uniformity of treatment for all classes of property.
 - (2) Discovering and assessing newly constructed property.
 - (3) Discovering and assessing real property that has undergone a change in ownership.
 - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
 - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of “significant assessment problems,” as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor’s practices.

C: The Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing⁵ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The Board of Equalization (BOE) in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the BOE's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The assessment sampling program is conducted by the BOE's County Property Tax Division (CPTD) on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

1. A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
2. These assessments are stratified into 18 value strata (nine secured and nine unsecured.)⁶
3. From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.
4. For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:
 - a) **Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - b) **Transferred properties.** Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

⁵ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

⁶ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$22,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

- c) **New construction.** Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - d) **Non-Proposition 13 properties.** Those properties not subject to the value restrictions of Article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, timber preserve property, and taxable government-owned property.
 - e) **Unsecured properties.** Those properties on the unsecured roll.
5. From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation which is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. This apparent distortion in the raw sampling is eliminated by "expanding" the sample data; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.
6. The field investigation objectives are somewhat different in each category, for example:
- a) **Base year properties** -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?
 - b) **Transferred properties** -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?
 - c) **New construction** -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the

roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?

- d) **Non-Prop 13 properties** -- for properties not covered by the value restrictions of Article XIII A, or those properties that have a unique treatment do we concur with the amount enrolled?
 - e) **Unsecured properties** -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
- 7. The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.
 - 8. The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

The primary use of the assessment sampling is to determine an assessor's eligibility for the cost reimbursement authorized by Revenue and Taxation Code section 75.60. During the course of the sampling activity, the assessment practices survey team may also discover recurring causes for the differences in the opinion of taxable value that arise between the assessor and the County Property Tax Division. These discoveries may lead to recommendations in the survey report that would not have otherwise been made.

ASSESSOR'S RESPONSE TO BOARD'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the Board a response to the findings and recommendation in the survey report. The survey report, the assessor's response, if any, and Board comments on the assessor's response, if any, constitute the final survey report.

The Orange County Assessor's response begins on the next page. The Board has no comments on the response.

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June 20, 2001

Charles Knudsen, Chief
County Property Tax Division
State Board of Equalization
P. O. Box 942879
Sacramento, CA 94279-0062

RECEIVED

JUN 25 2001

County Property Tax Division
State Board of Equalization

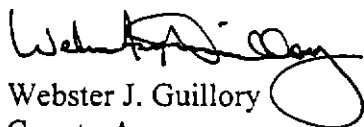
Subject: Response to the 2000 Assessment Practices Survey

Dear Mr. Knudsen:

Pursuant to Section 15645 of the California Government Code, the following report is the Assessor's Response to the 2000 Assessment Practices Survey. Please incorporate our response into your Final Assessment Practices Survey Report.

We wish to thank the survey team for the courteous and professional manner in which they conducted the survey.

Sincerely,



Webster J. Guillory
County Assessor

WJG:ma

Attachment: Response to 2000 Assessment Practices Survey

Recommendation 1:

Submit supplemental assessments to the county auditor on a monthly basis.

Assessor's Response: We agree that supplemental rolls should be published more often than twice a year. We have increased the frequency of supplemental roll delivery to about one every other month.

Recommendation 2:

Process all supplemental assessments unless exempted by the Board of Supervisors.

Assessor's Response: We agree with this recommendation and will include all supplemental assessment valuations on the supplemental rolls delivered to the Auditor-Controller. We will also initiate discussions with the Board of Supervisors, the Treasurer-Tax Collector, and the Auditor-Controller to consider a county ordinance to exempt low value supplemental assessments.

Recommendation 3:

Audit the accounts of properties that have major new construction completed.

Assessor's Response: We concur. We will update our current procedures and coordinate this work between the Real Property and Business Property Projects.

Recommendation 4:

Enroll dedicated parking spaces in government-owned parking facilities.

Assessor's Response: We have generally reviewed the government-owned parking space assignments for the County of Orange. The spaces provided are not labeled for a specific person and are not assigned for exclusive use.

The parking spaces serve a business purpose to the County in providing proximity to the work place for people that sometimes have intermittent assignments outside the office.

We do not agree with the conclusion that parking provided to government employees and elected officials has value over and above that which is generally available to the public.

Recommendation 5:

Ensure that timeshares are being assessed in a consistent manner.

Assessor's Response: We concur. We are assessing timeshare interests in property in a consistent manner within each timeshare project. Because of the variations between the various projects in Orange County in granting and holding title, there exists a written procedure for specific and to each project. We will consolidate as appropriate the existing assessment procedures for all of the existing timeshare projects in Orange County.

Recommendation 6:

Allow the welfare exemption for the total area of church parsonages.

Assessor's Response: We concur. As soon as the law was changed through the Board's adoption of Rule 137 in December 1999, the Orange County Assessor Department began applying the exemption as appropriate, and allowed claimants to file for the exemption retroactively for prior years, within the statute of limitations.

Recommendation 7:

Bring the Section 469 mandatory audit program to current status.

Assessor's Response: We have been working to bring our Section 469 mandatory audit workload to a current status. We are carrying fewer audits over each year. Since 1997 we have reduced the audit backlog by 55%. It should be noted that no taxable valuations are being lost as a result of delaying audit work. Mandatory audits are all being completed and no years are being lost to the statute of limitations.

Recommendation 8:

Discontinue the arbitrary minimum assessment policy applicable to audit findings.

We concur. We will enroll all differences resulting from Section 469 audits.

Recommendation 9:

Annually value pleasure boats at market value.

Assessor's Response: We concur. We are improving our process for valuing pleasure boats. We are unable to do a complete survey of each vessel in the county. We rely on the reported cost of initial purchases of vessels and reported costs of enhancements to the vessels from year to year to arrive at market value. In the future, we will attempt to use individual trend factors and will add a review of the current market to our procedure for valuing pleasure boats.

Recommendation 10:

Use the BOE's equipment index factors from AH581 as intended.

Assessor's Response: We have studied the variance in roll valuations between application of the complete set of commercial and industrial cost factor indexes versus the application of an average index and found the differences in the results to be insignificant. The California Assessor's Association (CAA) has come to the same conclusion and has published single commercial and industrial cost factor indexes to be used by all 58 counties for the lien date January 1, 2001. We intend to follow the CAA recommendation.

Recommendation 11:

Assess computers using the BOE's recommended computer valuation factors as intended.

Assessor's Response: We concur. We use the Board of Equalization's (BOE) recommended cost factor index tables for computer valuation, but review the result and then make adjustments that include appraisal judgment. The BOE's minimum percent good factors result in valuations that are sometimes inappropriate and they are modified during our process to fit various situations that occur in the real world.

Recommendation 12:

Ensure that leased equipment retained by the lessee upon lease termination continues to be assessed.

Assessor's Response: There has been no change in our procedures for tracking the fate of previously leased equipment since the 1997 SBE audit. The SBE has recommended establishing an elaborate system for tracking this type of equipment. The Business Property Statement instructions to business owners, as recommended by the SBE, address this issue in detail (Part III: DECLARATION OF PROPERTY BELONGING TO OTHERS). Designing and implementing a system to check that business owners are following these instructions is not a part of our current planning.